

How did we get here?

A brief history of Indiana's finances

Gov. Frank O'Bannon called a special legislative session this year to deal with escalating problems in the state budget. Indiana used to have a budget surplus. What has changed?

After the longest economic expansion on record in the 1990s, Indiana's coffers were full to overflowing. Legislators opted to cut taxes rather than keep such a large surplus, and returned over \$1.5 billion in taxes since 1996. Those cuts aided homeowners, renters, the working poor, senior citizens, and others in our state.

Spending in excess of revenues also occurred in anticipation of continued prosperous times.

By January of 2000, though, the national economy was slowing. Within a few months it was clear that our country's finances were taking a turn for the worse. With Medicaid spending on the rise, 17 states faced budget shortfalls by Fiscal Year 01, Indiana among them. Last July Gov. O'Bannon ordered \$113 million in one-time cuts in an effort to address the growing budget deficit.

Unfortunately, the national recession continued. Consumers spent less. Business slowed, cutting production and cutting jobs. That meant less money flowed into the state accounts from sales taxes, individual and corporate income taxes.

In May of this year, Indiana revenue collections were 14.7 percent below expectation. Imagine if your paycheck was 14 percent smaller this month. You would find ways to cut back, and then you would re-evaluate your situation.

Gov. O'Bannon made a total of \$949 million in spending cuts in Fiscal Year 02, but our state was still in the red. The legislature met to re-evaluate. House Bill 1001 is the result.

Kruzan legislative service comes to end

Special session concludes with tax package



Dear Bloomington & Monroe County Resident,

Sixteen years.

When my legislative predecessor, Marilyn Schultz, retired from House District 61 after

14 years of representing Bloomington, I never imagined I'd be doing the same after 16 years.

Historic tax package sessions bookend my legislative service. In 1986, Gov. Robert Orr worked for an income tax increase to fund an education reform plan. I always believed a Republican Governor calling for a general tax increase was the final sign of the Apocalypse, but it was actually happening.

Just last month, the General Assembly passed what's being billed as an "historic" tax package in a "successful" conclusion to a "special" session. I believe each of the words I placed in quotes—especially the latter—deserve qualification.

It's not an exaggeration to note that legislators passed a bipartisan program that will significantly impact the lives of most Indiana residents. But I fear assumptions made in the budget preparations are overly optimistic and the legislature will have to revisit the work done this summer to address further economic problems threatening essential state services.

House Bill 1001 raises some taxes and reduces others. It protects property owners from the impact of the court-ordered reassessment. It provides funding to help support critical state programs and services. It also restructures our state's tax code to provide more economic incentives to help create more jobs. (See the back of this card for more detail.)

The most significant part of HB1001 is the relief it will provide home, farm, and business owners from the court-ordered property reassessment. For homeowners, most of this relief will come through shifting 60 percent of school operating costs to the state, implementing a standard deduction on all homes of \$35,000 and increasing the homestead credit to 20 percent. These changes and an increase in the sales tax will help reduce residential property tax rates by double digits.

We also provide help to working families on lower incomes by increasing the earned income tax credit. Renters will receive an increase in the deduction they can take on their state income tax returns.

Finally, riverboat operators will be given the option of allowing a process commonly known as dockside gambling. This measure also creates a revenue sharing plan to provide all Indiana counties with a portion of riverboat proceeds. I remain concerned about growing government dependence on gambling.

State gas and cigarette taxes were increased to provide funding for roads, education, and social services.

I greatly appreciate the opportunity to serve afforded me by local voters and have never taken that responsibility for granted. I've tried to keep my newsletters informative pieces and not political mailings.

Your input has always been important. Never underestimate your individual and collective clout to make government work for you.

Thank you!

Property tax reform

- Increases Homeowners Exemption from \$6,000 to \$35,000
- Eliminates 60 percent of School General Fund Levy through state-paid Property Tax Replacement Credit
- Increases Homestead Credit from 4 percent to 20 percent
- Establishes new 20 percent Property Tax Replacement Credit on all individual and business real property

Economic development for Indiana

House Bill 1001 assists economic development across Indiana, and it couldn't come at a better time. In recent years Indiana has lost more manufacturing, retail and service jobs than anywhere else in the United States, and that certainly has had a negative economic impact in our state.

How do we create more jobs for Hoosiers? We must create an environment where businesses will want to come to Indiana, and where existing companies will want to expand their operations.

House Bill 1001 addresses these concerns in several ways:

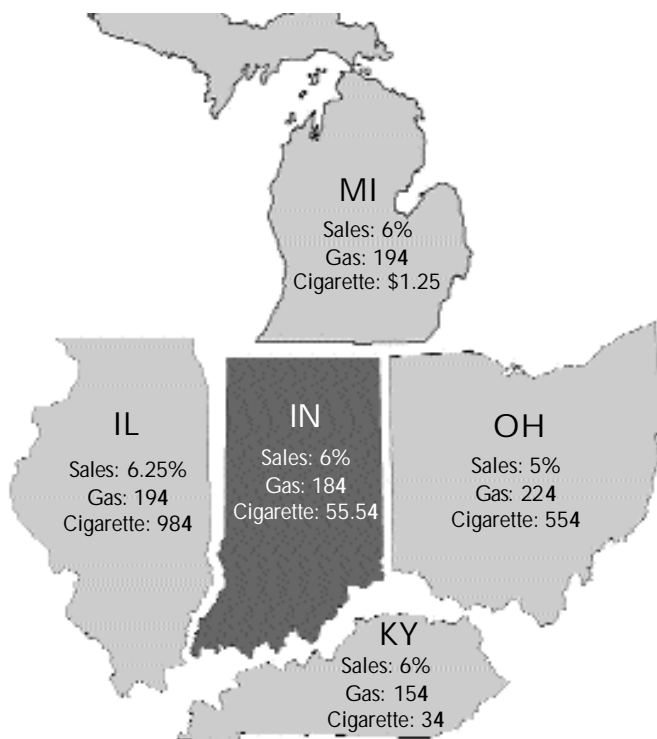
- It eliminates the unpopular inventory tax over a five-year period. Indiana is one of the few states in the country that still enacts this penalty on businesses.
- It also removes both the corporate gross income tax and the corporate supplemental net income tax. It replaces these taxes with a tax on a company's adjusted gross income.

Restructuring the tax burden for employers is only one part of the puzzle. We also must help companies by creating an environment where they can take advantage of the cutting edge technology that enables our state to be competitive in a changing global economy. Several provisions in House Bill 1001 help achieve this goal:

- It allocates tax credits to companies that provide venture capital to startup firms.
- It doubles the state's research and development tax credit to 10 percent.
- It provides \$30 million for the 21st Century Research and Technology Fund for 2003 and 2004.

The impact of these changes will be felt in the years to come. Business owners will think twice about relocating to another state. Companies will find an economic profile dedicated to creating well-paying jobs. They will be even more inclined to take advantage of the Hoosier work ethic that has made us the envy of other states. With the provisions for economic development in House Bill 1001, Indiana is back on track.

How does Indiana rank with its neighbors?



Data from the Federation of Tax Administrators

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